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MEMORANDUM FOR THE RECORD

SUBJECT: Controls on OPEC Investment

The attached summaries of US government policy papers on inward investment were prepared for the DDI in response to a telephone call on 20 February 1975.

[redacted]

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Chief
Trade and Monetary Analysis Branch
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Attachments:
As stated

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SUMMARY OF TABS

SUMMARY OF TAB B

The paper indicates that the general policy toward foreign investment in the United States is one of non-intervention. Nevertheless, several safeguards already exist that would prevent abuse of control by foreign interests and, in some cases, prevent foreign ownership altogether. Reporting requirements have also been recently strengthened to give a more accurate picture of foreign influence in US firms.

Anti-trust laws, state laws relating to minority interests, and the power to control exports, all act as deterrents to possible abuses by foreign investors. Administrative emergency powers under the Trading With the Enemy Act and other regulations designed to deal with enemies or hostile aliens could be used to augment the restrictions. Laws regulating defense contracts would effectively preclude foreign control of a company with extensive defense contracts by virtue of the threat that future defense dealings would be curtailed or that security clearances would be revoked. Laws relating to atomic energy, mining and drilling, fishing, and certain other activities either place foreign ownership under strict regulatory control or preclude foreign ownership altogether.

Several measures designed to further restrict or inhibit foreign investment have been discussed by the 93rd and 94th Congresses. The proposals include:

- Percentage limitations on foreign equity ownership.
- Improved reporting requirements.
- Requirements for prior notification of purchase and government approval of prospective purchases.

The only concrete step taken so far, however, is aimed at more complete disclosure of foreign interests in US firms. The US Treasury survey which identifies foreign purchases of US securities by country has been augmented by more stringent SEC disclosure requirements. A new

Department of Commerce bench-mark survey designed to identify foreign interests in medium and large US firms will help upgrade information on foreign ownership at the end of 1974.

SUMMARY OF TAB C

The paper argues unrestricted inflows of foreign investment benefit the US economy by directly augmenting capital formation, reducing the overall cost of capital, and spurring competition. OPEC investments in corporate stocks and bonds will provide an important source of much needed capital to individual corporations and will, by exerting a general upward pressure on security prices -- and thus a downward pressure on yields -- encourage investment elsewhere in the economy. This assumes that funds are less fungible than has been generally implied in other studies of the implications of OPEC investment.

The paper also points out that foreign investment in the United States could adversely affect the national interest by resulting in technology transfers to potential competitors, increasing future obligations to foreigners, and diluting national economic sovereignty. Nevertheless, the paper indicates these fears are without strong support. Technology transfers to the primitive OPEC economies are not likely to generate effective competition for US producers for many years to come, if ever. Current foreign investments do give rise to future outflows or resources, but these outflows are necessarily less than the increase in national wealth generated by the investment. The vast size of the US economy relative to potential OPEC investment insures that foreign ownership of productive resources will not exert a significant influence on aggregate US economic activity. The paper fails to consider the balance of payments and exchange rate implications of a substantial additional foreign investment inflow.

SUMMARY OF TAB D

The paper argues that increased restrictions on foreign investment in the United States could, under certain circumstances, provoke an adverse foreign reaction -- both from OECD and OPEC countries. The paper points out that the United States currently has a far more liberal foreign investment policy than most countries. Thus, modest increases in controls, such as registration and public disclosure -- if they are instituted with prior discussion and imposed on a non-discriminatory and non-arbitrary basis -- would probably be acceptable to most foreign governments. However, more stringent restrictions such as screening or new sectoral limitations risk undermining foreign confidence in the safety of US investments. This could cause foreign investors to shift their funds to markets where investment restrictions are weaker. Discriminatory restrictions against OPEC countries would be criticized both by OECD and OPEC countries and could prompt a significant reduction in investment and cutbacks in oil production. The paper fails to note that most OECD countries are also considering implementing new restrictions designed to control OPEC investors.

SUMMARY OF TAB E

The paper is divided into two sections: a survey of recent projections of the OPEC surplus and the preliminary results from a new OASIA research study. The general finding of the recent studies is that OPEC accumulations would total about $200 to $300 billion in 1974 dollars in 1980, or about $400 billion in current dollars. This is consistent with our own estimates.

The general conclusion of Treasury's research is that total OPEC accumulation by 1980 will total only $200 to $250 billion in 1974 dollars, or about $310 billion in current dollars. Moreover, it is argued that OPEC's overall current account balance will turn negative by the early 1980s so that total asset accumulations in 1985 are unlikely to be substantially higher than in 1980. We feel the Treasury estimates are somewhat optimistic.

SUMMARY OF TAB F

The papers claim that foreign investment policy is based on the premise that the operation of free market forces will foster the well-being of the international and the US economy. The US negotiating objective has been to press for reduced restrictions on capital movements, a decrease in discriminatory treatment against foreign capital, and for a mechanism to arbitrate international disputes related to foreign investment. In line with this objective, US policy has been to admit foreign capital freely and to treat it on an equal footing with US capital (with certain well-defined exceptions). The paper argues the adoption of new restrictions would undermine our efforts to liberalize international trade and investment and would adversely affect the national welfare.

Italy, Finland, Japan, and Austria. A number of new proposals are being actively negotiated by the interested countries.

A General Agreement on Cooperation of the Soviet Union and Japan has been signed for exploring and extracting oil and gas on the shelf of Sakhalin Island. That agreement, as well as large scale agreements concluded last year on Soviet-Japanese cooperation to exploit the forest resources of Siberia and the Far East, to mine coking coal deposits in southern Yakutsk, and to explore natural gas deposits in Yakutsk provides a long-term basis for developing mutually beneficial trade-economic relations in the interests of both countries.

Although trade turnover between the USSR and USA in 1974 was less than in 1973, the total of 742 million rubles was rather considerable compared with what it was previously. In recent years, several important agreements have been concluded between the USSR and USA which create a basis of their own for the favorable development of mutually beneficial trade and economic collaboration to accord with the great potential of both countries. A case in point is the well-known agreement with the American company "Occidental Petroleum Corporation" concluded in April 1973. This agreement calls for the delivery of equipment, materials, and technical documentation for an industrial complex to produce 4 million tons of ammonia and one million tons of urea per year, and also the delivery to the USSR by Occidental of superphosphoric acid for a 20-year period, beginning in 1978.

Positive changes are contemplated in the commodity structure of mutual trade, reflecting one of the characteristic natural developments in contemporary international trade as a whole.

In filling the large orders for delivery of American equipment to the USSR, not only do the firms with which contracts were signed, participate, but so do a considerable number of other companies -- subcontractors. Thus, more than 80 US firms are engaged in filling the orders for Kama. However, the discrimination permitted by the US in trade with the Soviet Union remains as before, and is an obstacle to the further development of trade between the USSR and USA.

Total exports in 1974 amounted to 20.8 billion rubles, i.e., 31.2% increase over 1973. Exports of machinery and equipment in 1974 amounted to 4.0 billion rubles -- a growth of 16.2% over the 1973 level. Last year, the following were exported: 17,000 metal-working tools, 41,000 tractors, 286 mainline diesel locomotives, 95 airplanes, 143 helicopters, 323,000 passenger cars, and 38,000 trucks. Exports of raw materials continued to increase in 1974. Exports included 22 million tons of coal, 81 million tons of crude oil, 14 billion cubic meters of natural gas, 43 million tons of iron ore, about 5 million tons of pig iron, 14 million cubic meters of logs, and 8 million cubic meters of lumber.

Total imports in 1974 were 18.8 billion rubles -- a 21.2% increase over 1973. In 1974 imports of machinery and equipment amounted to 6.0 billion rubles, or 32% of total Soviet imports. In particular, in 1974 deliveries included:

- technological equipment for the Kama Truck Plant;
- three complete sets of plant equipment for the production of sulphuric acid by the flotation pyrite method;
- equipment for the second line of the large sheet rolling mill "3600".

As before, machinery and equipment for agriculture, electronic computer equipment, transportation equipment, and other items were imported.

In 1974 considerable attention was given to importing consumer goods and the raw materials for their production. The share of this group of goods in the total imports of the Soviet Union in 1974 amounted to about 40%. Deliveries to the national economy in 1974 of a few of the major consumer goods were: 97,000 tons of wool; 142,000 tons of cocoa beans; 522 million rubles worth of sewn goods; 250 million rubles in knitted wear; 445,000 tons of citrus fruit; and 60 million pairs of leather shoes.

In 1975, foreign trade will continue to grow. The socialist countries will continue to occupy the principal place in Soviet foreign trade, especially the CEMA countries with whom cooperation is based on the broad development of the processes of socialist economic integration.

One can also expect that in the future USSR foreign trade will develop at a steady rate. In particular, it is because in the Soviet Union, with its constantly growing economic and scientific-technical potential and rich natural resources, hundreds of new enterprises are put into operation, completely new production facilities are created through scientific-technical progress and industrial installations and entire complexes unique in their scale are built every year.

Success in the development of Soviet machine-building should lead to an expansion of exports of machinery and equipment, transport facilities and a variety of household equipment from the Soviet Union to the developed capitalist countries. Consequently, the further development of Soviet trade with the developed capitalist countries will depend on increasing the exchange of goods, particularly of this group, as well as on both sides making full use of available opportunities. Undoubtedly, it is in this area that interesting and mutually profitable solutions can be found.